

# Key Management Associates - CareFirst Non Contractual

## Retention Bonus

### □ Purpose:

- Maintain Stability of Operations
- Maintain Value of Company
- Provide Management Support for Transaction
- Minimize Risk of Talent Defection



# Earned and Contractual Executive Benefits

CareFirst

- ☐ **Long Term Incentive Plan (LTIP)**
  - Deferred Accounts
  - Active Grants
- ☐ **Supplemental Executive Retirement Plan (SERP)**
- ☐ **Change of Control**



# Long Term Incentive Plan (LTIP)

Participants	#	Deferred Balances	Active Grants	Total Payout
Executives with Contracts*	8	\$ 3,604,398	\$10,970,340	\$ 14,574,738
Executives without Contracts	<u>9</u>	<u>\$ 1,076,949</u>	<u>\$ 3,493,283</u>	<u>\$ 4,570,232</u>
	17	\$ 4,681,347	\$14,463,623	\$ 19,144,970

**Notes:**

All amounts projected to April 1, 2003  
LTI payout projected at \$185

\* including CEO

## *The Plan Requires Payout Upon Change of Control (COC)*

- ☐ *Deferred Accounts (30%) - Previously Earned from Prior Awards*
- ☐ *Active Grants (70%) - Currently in Progress*

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# SERP & Qualified Pension Plans

CareFirst

Plan	\$	Payment Triggers
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Accrued Qualified Plan      \$ 1,866,744      Upon Termination of Executive

SERP Benefit      \$ 20,730,000      Double Trigger upon COC/Termination

\$ 22,596,744

• *Accrued Benefits have been Earned Over a Period of Years*

• *Contractual Obligation*

- Pay SERP Accrued Balance Upon Termination of Executives at COC
- Additional "Executive Service" Provided to Three Executives Hired Mid-career with Prior Executive Experience
- Accrued Qualified Plan Benefit Paid Upon Termination of Executives



# Change of Control Payment

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## Executives with Contracts or COC

\$

## Payment Triggers

Multiple of Salary plus Annual Incentive	\$ 13,128,207	Double Trigger upon COC/Termination
Pro-rated Current Year Incentive	\$ <u>416,061</u>	Double Trigger upon COC/Termination
Subtotal COC Cash Payments	\$ 13,544,268	
Personal & Health Benefits	\$ <u>514,957</u>	Double Trigger upon COC/Termination
Total COC Cash & Benefits	\$ 14,059,225	

- ☐ *Contractual Obligation Includes Payment of Excise Tax and Related Gross-Up.*
- ☐ *Pays Out Upon Termination in Connection with a Change of Control and Substantial Diminution of Duties*

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## **Critical Deal Points - By Category**

### **Pacific vs. CareFirst**

- Associate Benefits
- Retention Bonus
- Merger Incentive and Excise Tax



# Associate Benefit Differences

CareFirst

## ☐ Incentives

- Does Not Offer Incentives to Lower Level Associates

## ☐ Health

- Less Benefits with Prices Significantly Higher

## ☐ Time Off

- Shorter Service associates to receive 3 additional days PTO
- Work Week extended to 40 hours (from 37.5)
- Disability Benefits Less

## ☐ Retirement

- Does Not Recognize Regional Differences in Retirement Benefits
- Overall Retirement Package 25-50% Lower than CareFirst
- No Retiree Medical Benefits
- Stock Purchase Plan
- Occasional Stock Grants to Reward Profitability in 401(k) Plan

